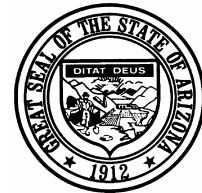


ARIZONA

TAXNEWS



Janet Napolitano, Governor

J. Elliott Hibbs, Director

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ARIZONA DEPARTMENT OF REVENUE MISSION STATEMENT

The purpose of the Arizona Department of Revenue is to promote voluntary compliance with all tax obligations through fair administration, firm enforcement, and prompt and courteous service in a manner that justifies the highest degree of public confidence in our efficiency and integrity.

WE'RE ON THE WEB!

The Arizona TaxNews can be viewed on our Internet website:

www.revenue.state.az.us

STATE INCOME TAX FILING SEASON SUCCESSFUL

900,000 taxpayers waited until April to file their 2002 Arizona income tax returns. 600,000 of these waited until the week of April 15. Each of these numbers is about 2.5% greater than last year. The total number of returns filed year to date is 1,997,742, a 3.5% increase over the 1,930,872 received in 2002.

Despite the increased numbers, the Department of Revenue (DOR) deposited all the checks received with these returns by May 1. Over \$166 million was received with income tax returns and deposited during April. "Our employees deposited these payments in an average of under 2 days in the pre-April 15 th time and an average of under 7 days after that. I'm

proud of them," said DOR Director Elliott Hibbs, "particularly since this was accomplished without significant effect on the turnaround time for refunds."

The average turnaround for a refund from an error-free paper filed return is 17.6 days, while refunds from e-filed returns have taken an average of only 2.6 days. Refunds from returns filed the week of April 15 will take up to two weeks longer. Returns with processing problems such as math errors or missing information require an additional two or three weeks to correct before the refunds can be issued.

More taxpayers took advantage of the

(Continued on page 4)

NEW RULING ISSUED—TPR 03-1

This is an abbreviated version of TPR 03-1. The entire ruling can be found on our website—www.revenue.state.az.us

ISSUE:

The sale of a motor vehicle to a non-resident of Arizona for use outside of the state.

RULING:

A.R.S. § 42-5061(A)(28) provides an exemption that is applicable to the sale of motor vehicles to some nonresidents of Arizona whose state of residence does not allow a credit for Arizona tax at the time of registration in the nonresident's state. The nonresident purchaser from one of these states must complete a valid

Transaction Privilege Tax Exemption Certificate (Arizona Form 5000) and obtain a special thirty-day nonresident registration. The Arizona sale of a motor vehicle to a nonresident from a state that allows an exemption or credit against its tax for tax paid to the Arizona motor vehicle dealer is subject to the Arizona transaction privilege tax. The Department publishes a schedule listing the states that provide tax reciprocity with Arizona, as well as the states that do not.

A.R.S. § 42-5061(A)(14) provides an exemption for the sale of tangible personal property to a nonresident of Arizona for use outside of Arizona,

(Continued on page 5)

*** REMINDER ***

FOR NON-EFT TPT FILERS

To avoid a delinquency, postmark your
May 2003 TPT return no later than
June 25, 2003 or deliver to DOR no later
than June 27, 2003.

March Summary of General Fund Revenues

| | March 2003 | Fiscal Year Total |
|---|---------------|----------------------|
| Individual Income Tax | | |
| Net Collections | (\$7,401,054) | \$1,232,584,587 |
| Percent Change* | 75.8% | (3.9%) |
| Corporate Income Tax | | |
| Net Collections | \$42,873,008 | \$208,970,014 |
| Percent Change* | 57.7% | 4.6% |
| Transaction Privilege, Severance & Use Taxes | | |
| Net Collections | \$238,596,840 | \$2,252,934,987 |
| Change * | 0.0% | 1.9% |
| Total Big Three Tax Types | | |
| Net Collections | \$274,068,794 | \$3,694,489,588 |
| Percent Change* | 16.5% | 0.0% |

() Decrease from same month last year.

* Percent change from same month last year.

Individual Income Tax Individual Income Tax Receipts

| | March 2003 | March 2002 | % Change |
|------------------------|----------------------|-----------------------|-------------|
| Gross Collections | \$26,043,526 | \$22,392,673 | 16.3 |
| Withholding | 200,798,157 | 187,049,148 | 7.4 |
| Refunds | (198,362,815) | (204,806,204) | (3.1) |
| Urban Rev Sharing | (35,879,921) | (35,212,171) | 1.9 |
| Net Collections | (\$7,401,054) | (\$30,576,555) | 75.8 |

| | (02/03) | (01/02) | % Change |
|--------------------------|------------------------|------------------------|--------------|
| Fiscal Year Total | | | |
| Gross Collections | \$274,725,514 | \$298,870,857 | (8.1) |
| Withholding | 1,733,865,337 | 1,754,142,285 | (1.2) |
| Refunds | (453,086,974) | (453,491,200) | (0.1) |
| Urban Rev Sharing | (322,919,289) | (316,463,219) | 2.0 |
| Net Collections | \$1,232,584,587 | \$1,283,058,722 | (3.9) |

Included in the refund amounts above are refunds relating to the alternative fuel vehicle income tax credit. After offsetting \$500 in tax liability, there were no refunds issued. This amount does not include withholding and estimated payments returned to taxpayers because their liability was covered by the alternative fuel vehicle credit.

TAX CALENDAR

JUNE 2003

| Due Date | | For Period Ending |
|-------------|--|----------------------|
| 16 | Income Tax Returns: | 2/28/03 |
| | Form 120: Corporation | |
| | Form 140: Individual | |
| | Form 141: Fiduciary | |
| | Form 165: Partnership | |
| 16 | Form 120: Corporation with Automatic Extension | 8/31/02 |
| 16 | Form 120S: S Corporation | 3/31/03 |
| 16 | Form 99: Exempt Organization Annual Information Return | 1/31/03 |
| | Form 99T: Exempt Organization | 1/31/03 |
| 16 | Form 120ES: Estimated Tax Payment, Corporation | |
| | First Installment | 2/28/04 |
| | Second Installment | 12/31/03 |
| | Third Installment | 9/30/03 |
| | Fourth Installment | 6/30/03 |
| 20 | Form TPT-1: Transaction Privilege Tax: May Monthly Filers | 5/31/03 |
| 20 | Form TPT-ES: Estimated Tax Payment Transaction Privilege Tax | 6/30/03 |
| 20 | Bingo: Financial Reports | 5/31/03 |
| 20 | Luxury Tax: Various Forms | 5/31/03 |
| 25 | EFT Form TPT-1 and Payment: Transaction Privilege Tax May Monthly Filers | 5/31/03 |

Withholding Tax Payment Information:

If the average amount of Arizona income taxes withheld in the preceding four calendar quarters **exceeds** \$1,500 the employer must make its Arizona withholding payments to the Department of Revenue at the same time as the employer is required to make federal withholding deposits. If the average amount of Arizona income taxes withheld in the preceding four calendar quarters **does not exceed** \$1,500 the employer must make its Arizona withholding payments to the department on a quarterly basis.

The *Arizona TaxNews* is a publication of the Arizona Department of Revenue. Information contained herein is of a general nature and is not designed to address complex issues in detail. Taxpayers requiring information concerning a specific tax matter should contact the appropriate office. This newsletter is available in an alternative format upon request. Subscription information may be obtained from the Publications Unit at 602-542-4672 or toll free from area codes 520 & 928, 1-877-863-0655.

WITHHOLDING TAX ADDED TO FIRST RELEASE

BRITS, the Department's reengineering project, is proceeding as planned. After a lot of study and deliberation, it was decided to add Withholding Tax to the first release along with Transaction Privilege Tax (TPT). Although this will place additional burdens on data conversion, training, and other areas, it was also seen as an opportunity to take advantage of the fact that many of the TPT accounts that would be converted also had Withholding Tax responsibilities. In addition, the Withholding

Tax and TPT records in the current system have similar formats and come from the same application process. The conversion of TPT and Withholding Tax to the new BRITS system is still scheduled for January 1, 2004. Between now and then, new TPT and Withholding returns and a new Joint Tax Application will be designed. DOR will be previewing the new forms during the summer and into the fall as we get closer to the conversion.

CHANGE IN TOWN CHANGE—TOWN OF GUADALUPE

Effective August 1, 2003: The Mayor and Town Council of the Town of Guadalupe passed ordinance number 2003-06. Ordinance 2003-06 increases the Guadalupe Town Privilege Tax from **2% to 3%**. The tax rate increase affects the following classifications:

Advertising; Construction Contracting; Job printing; Manufactured buildings; Timbering & other extraction; Publishing; Hotels; Rental of real property; Rental of tangible personal property; Retail sales; Telecommunications; Transporting for hire and Utilities.

Ordinance 2003-06 also increases the Tax on Restaurants and Bars from **2% to 4%**. Restaurants and Bars should be reported using **CODE GU3**.

The increase imposed by this ordinance shall not apply to contracts entered into prior to the effective date of the ordinance. **Pre-existing contracts** should be reported using **CODE GU9** at a rate of **2%**.

CHANGE IN CITY TAX CODE—CITY OF PAGE

Effective August 1, 2003: The Mayor and City Council of the City of Page passed ordinance number 457-03. Ordinance 457-03 increases the Page City Privilege Tax from **2% to 3%**. The tax rate increase affects the following classifications:

Advertising; Amusements; Construction Contracting; Job printing; Manufactured buildings; Timbering & other extraction; Publishing; Hotels; Rental of real property; Rental of tangible personal property; Retail sales; Telecommunications; Transporting for hire; Utilities and Use Tax.

Ordinance 457-03 decreases the Tax on **Restaurants and Bars** from **4% to 3%**. **Restaurants and Bars** shall still be reported using **CODE PG3**.

Ordinance 457-03 also increases the tax rate for single item over \$3,000 from **1% to 2%** for **Retail and Use Tax**. The first \$3,000 shall be taxed at 3% and above \$3,000, the measure of tax shall be 2%. The first \$3,000 for retail shall be reported using **PG** and above \$3,000 shall be reported using **PG4**. The first \$3,000 for Use Tax shall be reported using **PG2** and above \$3,00 shall be reported using **PG6**.

There is no pre-existing contract provision in this ordinance.

Filing Season Success

(Continued from page 1)

ease and security of the electronic technology that is available. The 715,754 e-filed returns this year is a 50% increase over the 475,953 received last year. The number of taxpayers who chose to have their refunds deposited directly in their bank accounts more than doubled with 429,268 this year versus 202,045 in 2002.

Overall, the number of refunds issued has increased by 3.9% to 1,154,011 compared with 1,110,333 last year. The average refund amount, on the other hand, has decreased by 3.2% dropping from \$550.53 in 2002 to \$532.91 this year.

“This picture is much brighter than the one we painted earlier in the year. I attribute our success in this filing season to three factors: our dedicated employees; the actions of Governor Napolitano and the legislature in reinstating some money in our budget for additional temporary employees; and the increased number of taxpayers choosing to e-file their returns. These factors will also enable us to issue all refunds from timely filed returns by June 15, thus avoiding the requirement to pay interest,” concluded Hibbs.

ARIZONA INCOME TAX FILING SEASON STATISTICS

| | 2003 YTD | 2002 YTD |
|-----------------------|-----------------|-----------------|
| <u>RETURNS</u> | | |
| Paper | 1,281,988 | 1,455,019 |
| e-file | 715,754 | 475,853 |
| Total | 1,997,742 | 1,930,872 |
| <u>REFUNDS</u> | | |
| Warrants | | |
| Number | 724,743 | 908,288 |
| \$ amount | 327,041,833.00 | 462,424,820.00 |
| Average | 451.21 | 509.12 |
| Direct Deposit | | |
| Number | 429,268 | 202,045 |
| \$ amount | 287,943,733.00 | 148,849,855.00 |
| Average | 670.78 | 736.72 |
| Total | | |
| Number | 1,154,011 | 1,110,333 |
| \$ amount | 614,985,566.00 | 611,274,675.00 |
| Average | 532.91 | 550.53 |

EMPLOYER POTPOURRI 2003

The Community OutReach and Education (CORE) section of the Arizona Department of Revenue invites employers and tax professionals to attend the 5th annual Employer Potpourri. This is a rare opportunity to get comprehensive information from representatives of several federal and state agencies. You may also be eligible for Continuing Professional Education Credit (CPE).

Cost of the program is \$75 per person. Schedule in Tucson, Mesa, and Phoenix:

- **Tucson—June 10,** Radisson Hotel City Center Tucson
181 W Broadway
- **Mesa—June 12,** Sheraton Phoenix East
200 N Centennial Way
- **Phoenix—June 17,** Ramada Hotel (formerly Red Lion Phoenix North)
12027 N 28 Dr.

For more information, please call CORE at 602-542-3062 or toll free area codes 520 & 928, 1-877-863-0655.

TPR 03-01

(Continued from page 1)

when the tangible personal property is shipped or delivered outside of Arizona. This exemption applies only if all of the statutory criteria are fulfilled.

To qualify for the A.R.S. § 42-5061(A)(14) exemption, the motor vehicle must be purchased by a nonresident. A purchase by a part-time resident or any other person who is in Arizona for any reason other than temporary or transient purposes does not qualify for this exemption if the motor vehicle will be registered in Arizona.

The motor vehicle must be purchased by the nonresident for use outside of the State of Arizona. At the time of purchase, a special thirty-day non-resident registration is obtained from the motor vehicle dealer pursuant to A.R.S. § 28-2154.

Subsequent registration of the vehicle in Arizona (including any temporary registration or extensions thereof) within three months from the date of purchase will be presumed by the Department as proof that the motor vehicle was purchased for use in Arizona, unless otherwise demonstrated.

Registration of the motor vehicle in Arizona within three months will subject the purchaser to pay the amount specified in A.R.S. § 42-5009(F), which shall equal any tax, penalty and interest that the motor vehicle dealer would have been required to pay.

Nonresident United States Military personnel who are stationed in Arizona do not qualify for the exemption provided by A.R.S. § 42-5061(A)(14) if the motor vehicle is purchased for use in Arizona during the person's military assignment.

A motor vehicle that is purchased by a qualifying nonresident must be shipped or delivered outside of Arizona. Ideally, the motor vehicle should be

delivered to the purchaser's state of residence and registered in that state soon after delivery. Deliveries to locations just beyond Arizona's border should cause an Arizona motor vehicle dealer to examine closely the other factors addressed in this ruling before accepting an exemption certificate.

A.R.S. § 42-5009 authorizes the Department to prescribe a form for the certificate to be used to document the motor vehicle dealer's exemption from tax. The Department has prescribed Arizona Form 5010 for this purpose. To monitor the appropriate use of this certificate and the applicability of this exemption, the Department requests that motor vehicle dealers submit copies of accepted certificates to the Nonresident Car Program of the Transaction Privilege Tax Audit Division on a quarterly basis. Arizona Form 5010Q should be used to remit the accepted Arizona Form 5010 certificates to the Department on a quarterly basis.

These certificates will be treated as confidential information supplied to the Department and will not be disclosed to other motor vehicle dealers. Submission of copies of these certificates to the Department does not relieve the motor vehicle dealer of compliance with all other provisions of A.R.S. § 42-5009 and Arizona Transaction Privilege Tax Procedure TPP 00-3. The motor vehicle dealer is required to maintain the original certificates on file as part of the dealer's records, along with any additional documentation that supports the exemption from tax.

Substantial penalties and other statutory provisions, as discussed in this ruling, govern the inappropriate use of exemption certificates and may apply to the motor vehicle dealer, the purchaser, or both parties.

J. Elliott Hibbs, Director

Signed: May 13, 2003

Perfect for
Extension &
Late-filed Returns!



NEW TAX SCAMS SURFACE

IR 2003-63

WASHINGTON – Although the federal tax filing season ended on April 15, the Internal Revenue Service continues to see new tax scams. Two new schemes target families of those serving in the Armed Forces and e-mail users. In both schemes, people represent themselves as being from the IRS.

The IRS has seen isolated instances of the scam that targets the families of those serving in the Armed Forces.

The IRS warns consumers to beware of any variation of a scenario in which a telephone caller posing as an IRS employee tells a family member that he is entitled to a \$4,000 refund because his relative is in the Armed Forces and then requests a credit card number to cover a \$42 fee for postage. The scammer provides an actual IRS toll-free number as the call back number in order to make the call seem legitimate. However, the scammer then makes numerous unauthorized purchases with the victim's credit card number.

Genuine IRS employees who call taxpayers do not ask for credit card numbers or request fees for payment of a refund.

"Tax season may be over, but tax scams continue," said IRS Commissioner Mark Everson. "These types of shameless schemes hold out the allure of easy money. The IRS warns taxpayers to be on the lookout for these schemes. And we urge taxpayers to remember that the IRS does not charge for refunds or solicit credit card information."

In another scheme, victims receive an e-mail that appears to be from the IRS. The e-mail contains links to a non-IRS Internet Web page that asks for personal and financial information. Such information could be used to steal the respondent's identity and get access to sensitive financial data or accounts.

Identity thieves can use someone's personal data to:

- take over his or her financial accounts,

- run up charges on the victim's existing credit cards,
- apply for loans, credit cards, services or benefits in the victim's name, or
- file fraudulent tax returns.

The IRS does not request sensitive personal or financial data by e-mail.

Both of these schemes are being reviewed by the Treasury Inspector General for Tax Administration, which is authorized to investigate the misuse of the IRS name, insignia, seals and symbols.

Taxpayers who are on the receiving end of one of these scams should contact TIGTA by calling the toll-free fraud referral hotline at 1-800-366-4484, faxing a complaint to 202-927-7018 or writing to the TIGTA Hotline, P.O. Box 589, Ben Franklin Station, Washington, D.C. 20044-0589. TIGTA's Web site is located at www.ustreas.gov/tigta.

These are hardly the first scams involving impersonation of an IRS employee or misuse of the IRS name.

In the past, scammers have impersonated IRS agents by going to taxpayers' houses to "collect taxes." Genuine IRS special agents, field auditors, and collection officers carry picture IDs and will normally try to contact the taxpayer before they visit.

In another scam, the scheme promoters sent out fictitious bank correspondence and phony IRS forms in an attempt to trick the recipients into disclosing their personal and banking data. The scheme promoters then used the information to impersonate the taxpayer and gain access to the taxpayer's finances.

Genuine IRS forms do not ask for sensitive personal and financial data except in very special circumstances.

Additional information on tax scams may be found on the genuine IRS Web site, IRS.gov, by going to The Newsroom page and then clicking on the "Scams/Consumer Alerts" link under the Topics sidebar.

IRS CLARIFIES TAX TREATMENT OF VARIOUS MEDICAL EXPENSES

IR-2003-66

WASHINGTON — In two rulings issued today, the Internal Revenue Service clarified the tax treatment of certain medical expenses. The guidance affects the ability of taxpayers to claim these expenses when itemizing deductions.

Taxpayers who itemize may claim medical expenses only to the extent they exceed 7.5 percent of adjusted gross income. Even though more than one-third of taxpayers itemize deductions, fewer than six percent claim medical expenses.

The rulings cover five subjects:

- nonprescription drugs recommended by a doctor;
- nonprescription equipment, supplies, or diagnostic devices;
- breast reconstruction surgery;
- vision correction surgery; and
- teeth whitening procedures.

The law limits the deduction for medicine or drugs to insulin and those drugs that require a prescription. Even when recommended by a doctor, medicines available over-the-counter are not deductible. However, this limitation does not apply to other nonprescription items,

such as bandages, crutches, thermometers, or blood sugar test kits. If otherwise qualifying as related to medical care, such items are deductible.

The law does not allow a deduction for cosmetic surgery or similar procedures, unless needed to correct a deformity related to an injury, disease, or congenital abnormality, to meaningfully promote the proper function of the body, or to prevent or treat illness or disease. Thus, breast reconstruction after a mastectomy or vision correction by laser surgery would be deductible expenses. However, merely improving appearance is not enough for a procedure to qualify as deductible. Hence, treatment of tooth discoloration, which doesn't promote the proper function of the body and doesn't correct a deformity, is not a deductible medical expense.

Revenue Rulings 2003-57, dealing with surgical procedures, and 2003-58, dealing with nonprescription items, are available on the IRS Web site at www.irs.gov and will be published in Internal Revenue Bulletin 2003-22, dated June 2, 2003.

COLORADO ANNOUNCES AMNESTY PROGRAM

From June 1 through June 30, 2003, Colorado will offer Tax Amnesty -- an opportunity for businesses and individuals to pay taxes owed to the state without penalty or criminal prosecution, and at half the interest rate for those who qualify. The 2003 Tax Amnesty Program applies to taxes administered by the Colorado Department of Revenue. It is available to anyone who owes back taxes that were due on or before Dec. 31, 2002.

Please note that this Tax Amnesty opportunity does not apply to 2002 Colorado income tax that is due April 15, 2003.

Amnesty At-a-Glance

- Colorado Tax Amnesty is not available for tax liabilities that have been previously billed by the Department.

- Payment of the tax and interest must accompany the tax return unless you apply for an Agreement to Pay.
- The tax return must indicate that it is being submitted under the Tax Amnesty program. The tax return must be attached to the Tax Amnesty application.
- A separate check must be attached to each Tax Amnesty application.

The tax return and Tax Amnesty application along with full payment (or a completed Agreement To Pay application) must be postmarked no later than June 30, 2003.

For more information, check the State of Colorado website at www.revenue.state.co.us/taxamnesty.html



TPT-ES REMINDER

Annual estimated payments of the transaction privilege, telecommunication services excise and county excise taxes are required, if a taxpayer's actual combined tax liability for the transaction privilege, telecommunication services excise and county excise taxes in the preceding calendar year was \$100,000 or more, or if the taxpayer can reasonably anticipate a liability for such taxes of \$100,000 or more in the current year. For purposes of the annual estimated tax payment, "taxpayer" is defined as the business entity under which the business reports and pays state income taxes, regardless of the number of business locations collecting the transaction privilege, telecommunication services excise and county excise taxes.

This estimated payment must be equal to either one-half of the tax due for the month of May or the tax due for the first 15 days of June. For those taxpayers required or electing to pay in immediately available monies (EFT), the due date is June 25. The payment is delinquent if not transferred by that day. For all others, the due date for this estimated payment is the 20th of June. The payment must be postmarked by the 20th of June or received in the Department by the business day preceding the last business day of June.